Commission ensured the complete removal of equal access cost recovery from the price caps by requiring the price cap LECs, as part of their 1997 Annual Access Tariffs, to remove these costs using a revenue-based methodology and "R" value adjustment.[31] A similar approach is warranted here and, indeed, is required by the Access Reform Order.[32]

B. If Revenues Are Used As A Surrogate For Costs, The Price Cap LECs Should Not Use Part 69 Revenue Requirements To Recalculate The Base Factor Portion.

AT&T disagrees with the Commission's tentative conclusion that price cap LECs should calculate their line-side port revenue requirements at an 11.25% rate of return for the purposes of adding line-side port costs into EUCL rates.

First, Bell Atlantic's recent transmittal shows that the Commission's suggested approach would violate the Access Reform Order. In this transmittal, Bell Atlantic adopted the Commission's revenue methodology for making exogenous cost adjustments to the Traffic-Sensitive basket and Common Line basket and, as a result, shifted an additional $145 million in revenues from the former to the latter.[33] Because Bell Atlantic adopted the Commission's proposed methodology with respect to common line rate development, however, Bell Atlantic placed all line-side port costs above the 11.25% based revenue requirement (i.e., 100% of the $145 million reallocated revenues) into the usage-based CCL rate. This result not only violates the Access Reform Order's requirement that line-side port costs be recovered through per-line rates, rather than usage-based rates, it also further delays the Commission's goal of eventually eliminating the CCL charge.

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[31] In re 1997 Annual Access Tariff Filings, CC Docket No. 97-149, Memorandum Opinion and Order (released Dec. 1, 1997).

[32] For the reasons discussed above, if the Commission elects not to use the revenue methodology, the Commission should use revenue requirements calculated at actual basket earnings.

[33] Bell Atlantic Transmittal 1033 (filed March 3, 1998); Bell Atlantic-North Transmittal 488 (filed March 3, 1998).

Second, the Commission's methodology will be difficult to implement and impossible to verify. Because both the revenue and revenue requirement methodologies produce line-side port costs only for the 1996 base year, and the BFP revenue requirement addresses the forthcoming rate period, the Commission could make the treatment of BFP and port costs fully compatible only if the Commission required the price cap LECs to produce forecasts of their line-side port revenue requirements at the 11.25% rate of return. As the Commission is well aware, the price cap LECs likely will encounter considerable difficulty in making such forecasts and, in any event, these forecasts will be impossible to verify due to fact that the price cap LECs will rely on complicated and proprietary cost models to make their calculations.[34] For these reasons, both the price cap LECs and the Commission have resisted such an approach.[35]

AT&T suggests that instead of requiring the price cap LECs to treat line-side and dedicated trunk port costs in the same manner as BFP revenue requirements, the Commission instead should adopt the following line-side port ratemaking methodology. Once price cap LECs identify their line-side port costs using the revenue-based methodology, they should follow the current TRP instructions that require the price cap LECs to develop a per-line, line-side port rate (by dividing the total amount

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[34] As noted above, supra note 25, the Commission's Designation Order did not address AT&T's request to examine the price cap LECs' calculations of their line-side and trunk port investment percentages. AT&T believes that the Commission may have refrained from addressing this issue because the Commission sought to avoid the difficult problems that would arise from the necessary examination of the price cap LECs' proprietary costs models. Requiring price cap LECs to use these cost models to forecast line-side port costs for the 1997/1998 would entangle the Commission and the carriers in a similar set of problems.

[35] For example, the Commission's instructions in the November 1997 TRP Order, which no LEC objected to, required the price cap LECs to develop a per-line, line-side port rate by dividing their total historical line-side port costs by total loops. Similarly, none of the price cap LECs' direct cases suggests that line-side port costs should be forecasted for the same period that BFP revenue requirements were forecasted. Thus, both the Commission and the price cap LECs seem to agree that it is undesirable to treat line-side and dedicated trunk port costs in the same manner as BFP revenue requirements.

of line port cost shifted to Common Line basket by the total number of loops). Continuing with the TRP instructions, price cap LECs then should develop their EUCL, PICC and CCL rates by adding this per-line, line-side port cost to the per-line BFP. In future filings, price cap LECs should adjust this initial per-line, line-side port rate in lockstep with adjustments to the Common Line PCI.[36]

This simple and straightforward ratemaking treatment of line-side port costs will avoid all of the problems associated with treating line-side port costs like BFP for ratemaking purposes. For example, line-side port costs will be fully removed from local switching rates and will be recovered, to the extent allowed by the EUCL and PICC caps, from per-line rates. In addition, there will be no unnecessary increase in the CCL rates, and there will be no need to continue to develop special cost studies and forecasts of line-side costs. Finally, since line-side port costs have been under price caps from the beginning of price cap regulation, it is reasonable to continue to develop these costs under price caps, even after they are shifted to Common Line basket.

IV. THE PRICE CAP LECS HAVE MISCALCULATED CERTAIN ADJUSTMENTS TO THE TRANSPORT INTERCONNECTION CHARGE.

As the Commission found in the Designation Order, a number of price cap LECs have failed to properly reassign charges from the TIC, or failed to properly assign charges within the TIC, in a manner that comports with the Commission's goals of cost-causative, efficient pricing principles as set forth in the Access Reform Order. Specifically, certain LECs have made substantial errors in (i) central office equipment maintenance and marketing adjustments to the TIC, (ii) recalculations to the TIC to account for actual, rather than assumed, minutes of use, and (iii) the methods for determining

[36] Although Part 69.306 (d) now requires the price cap LECs to assign line-side port costs to the Common Line rate element, the Commission can, and should, prescribe a reasonable approach for ratemaking purposes for the recovery of line-side port costs.

residual and facilities-based TIC amounts. Designation Order ¶¶ 63-90. The Commission should require these price cap LECs to reduce their TICs to appropriate levels.

A. The Price Cap LECs Misapplied Downward Exogenous Cost Adjustments For Central Office Equipment Maintenance and Marketing.

The direct cases confirm that the price cap LECs are using an incorrect methodology to reallocate central office equipment ("COE") maintenance and marketing expenses from the TIC to other price cap baskets.[37] The Commission tentatively concluded, and AT&T agrees, that the price cap LECs must allocate the COE maintenance and marketing exogenous cost changes to the TIC as it existed prior to July 1, 1997, rather than after July 1, 1997, as the LECs have done. Designation Order ¶ 68.

The Commission's tentative conclusion is plainly correct. Applying the exogenous adjustment to the post-July 1, 1997 TIC revenues would result in substantial misallocations. As illustrated by Exhibit COE, the "X-Factor" reductions that occurred on July 1, 1997 substantially reduced the remaining, residual TIC that existed on June 30, 1997.[38] Therefore, the price cap LECs must apply

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[37] The Commission concluded in the Access Reform Order that LECs were misallocating COE maintenance expenses among access services. Access Reform Order ¶ 223. Therefore, the Commission required LECs to identify the amount of COE maintenance that has been misallocated to the Trunking and Common Line baskets, and to move these amounts to local switching. Id. The Commission found that it was unable to determine from the price cap LECs' tariff filings whether the price cap LECs properly removed marketing expenses and COE maintenance expenses from the TIC. Designation Order ¶ 67. The Commission therefore directed the price cap LECs to provide supporting documentation substantiating and justifying the amounts that were removed from the Trunking basket as COE maintenance and marketing expenses, and the portion of that amount that was removed from the TIC. Id.

[38] In the Access Reform Order, the Commission required the price cap LECs to separate their TIC revenues into (i) those related to particular facilities and (ii) those that cannot be directly tied to any identifiable cost element (which is known as the "residual TIC"). Access Reform Order ¶¶ 210-43. Moreover, price cap LECs were required, beginning with their July 1, 1997 filings, to apply their "GDPI-X" adjustments solely to the residual TIC, i.e., that portion of their TIC revenues that were not expected to be directly reassigned to cost based facilities. See Access Reform Order, Appendix (continued...)

these exogenous adjustments to the TIC as it existed before July 1, 1997, in order to avoid over-assigning COE and marketing expense exogenous cost adjustments to the facility-based portion of their TICs and under-assigning COE and marketing expense exogenous adjustments to their residual TICs.[39] As shown in Exhibit COE, many price cap LECs have reallocated these expenses based on the TIC as it existed after July 1, 1997, and therefore have under-assigned marketing and COE maintenance exogenous cost adjustments to the residual TIC, and have failed to accurately identify the residual and facility-based cost amounts that are subject to the excess targeting true up. As a result, these price cap LECs, in the aggregate, have misallocated over $37 million, thereby frustrating the Commission's intent to establish access rates that are more closely aligned to the costs of providing the service and. See Exh. COE. The Commission should ensure that this under-assignment to the residual TIC is rectified.[40]

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[38] (...continued)
C at 4.

[39] See also AT&T's Dec. 11 Petition at 31-32 (giving example); AT&T's Dec. 23 Petition at 8-11 (same).

[40] The direct cases reveal that the majority of LECs, with the exception of Aliant, allocated their COE maintenance expenses to the Trunking basket, and subsequently to its service bands, based on the proportion of revenue in each band to the total basket revenue. This approach is reasonable. AT&T is unable to determine whether Aliant's calculation of COE maintenance expense removed from the TIC is proper or not. AT&T believes that the Commission should require all LECs to use a consistent and widely accepted relative revenue method.

With respect to the removal of the marketing expenses from the service bands, the Commission explicitly mandated that marketing expenses be removed from the Trunking basket SBIs in the same relationship as Account 6610 marketing expenses are included in Trunking basket. The price cap LECs now appear to agree that the Access Reform Order requires that marketing-related downward exogenous cost adjustments should be allocated to the service bands based on the proportion of each band's revenue to the total relevant Trunking basket revenue. The relevant bands would exclude Trunking basket special access revenue. AT&T agrees that this methodology is reasonable.

B. The Price Cap LECs Have Miscalculated Transport Interconnection Charge Adjustments Associated With The Elimination Of The 9000 Minutes Of Use Assumption.

The price cap LECs' direct cases also confirm that their recalculations of the TIC to account for actual minutes of use for common transport are in error. In the Access Reform Order, the Commission ordered price cap LECs to recalculate rates for the common transport portion of tandem-switched transport by using actual minutes of use for circuit loading, rather than assuming 9000 minutes of use per trunk ("9000 MOU"). Access Reform Order ¶¶ 206-09, 222. Although the Commission fully anticipated that the TIC would be reduced as a result of these recalculations, the direct cases confirm that the price cap LECs have instead improperly increased the TIC. See Exh. 9000 MOU.

Indeed, as the direct cases show, the price cap LECs (with the exception of Bell Atlantic-South) have either improperly increased their TIC or have failed to sufficiently reduce it. The correct methodology, which the price cap LECs should have followed, is set forth in paragraph 79 of the Designation Order.[41] As several price cap LECs acknowledge, this method is consistent with the Access Reform Order, and indeed is necessary to isolate properly the impacts of the 9000 MOU assumption from other effects associated with changes in the price cap LECs' DS1/DS3 pricing and

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[41] To comply with the Access Reform Order, the price cap LECs must recalculate tandem-switched transport rates using the same data that was used when the rates were first established in 1993. Rather than assuming 9000 minutes of use per month as a basis for the calculation, the price cap LECs must use actual minutes of use for circuit loading. As the Commission notes, those rates should then be compared to the 1993 rates for the same services to calculate the amount of the original TIC that was attributable to the 9000 MOU assumption. After making this determination, the price cap LECs must then make an exogenous (downward) adjustment to their June 30, 1997 TIC SBIs by that same percentage, and make a corresponding (upward) exogenous adjustment to their tandem-switched transport SBIs based on the percentage of tandem-switched transport revenue attributable to the 9000 MOU assumption. Designation Order ¶ 79.

LEC network design.[42] Because the price cap LECs used current data, rather than 1993 data, their calculations necessarily reflect subsequent changes both in the rates for these services and in the mix of facilities used, in addition to the effect of the original 1993 overallocations due to the 9000 MOU assumption.

The failure to isolate the change in MOU volumes from the influence of other variables has a substantial impact. See Exh. 9000 MOU. Ameritech, for example, reported 7332 minutes of use, which falls well below the 9000 MOU assumption, and yet Ameritech's TIC SBI actually increased as a result of the methodology it employed. This counterintuitive outcome can be explained only by the fact that the impact of using actual minutes of use was outweighed by the effect of subsequent price changes and facility mix variables between the two sets of rates used to compute the absolute revenue difference. As the Commission found in the Designation Order (¶ 77), the Commission never intended for the price cap LECs' recalculation of the TIC to be influenced by these other factors.

Ameritech was not the only price cap LEC to report an increase in the TIC where actual minutes of use were said to be below 9000. In fact, every price cap LEC reporting actual minutes of use below 9000, with the exceptions of Bell Atlantic and SNET,[43] decreased tandem-switched transport SBIs and increased TIC SBIs. These price cap LECs should recalculate the exogenous adjustments according the correct methodology set out in paragraph 79 of the Designation Order.[44]

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[42] See, e.g., Aliant Direct Case at 6; Citizens Direct Case at 4-5; GTE Direct Case at 11; U S WEST Direct Case at 22-23.

[43] Bell Atlantic, in its direct case, suggests that its recalculation of the TIC cost shift based on the Commission's proposed method is close to the value Bell Atlantic initially calculated. This result is not surprising given that Bell Atlantic's DS1 and DS3 prices and Copper/Fiber percentages have not changed as radically as have these values for other LECs. In short, Bell Atlantic's result is precisely what would be expected.

[44] Ameritech asserts that it is not appropriate to use a historical revenue to develop a current SBI.
(continued...)

Finally, although Ameritech and SNET rely on 47 C.F.R. § 69.111(c) in using current data rather than 1993 data, they have misread the rule. Contrary to their assertions, section 69.111(c) explicitly states that it applies to price cap carriers only for the limited purpose of computing initial tandem-switched transport charges.[45] It is therefore inappropriate for the price cap LECs to follow section 69.111(c) in the recalculation of their tandem-switched transport rates.[46] As explained above, to isolate the impact due to the use of actual rather than assumed volumes, the price cap LECs must use the same DS1 and DS3 prices and copper/fiber ratio that were used as the basis for their initial tandem-switched transport rate calculation in 1993. See Designation Order ¶ 78.

C. Two Of The Price Cap LECs Have Miscalculated The Residual and Facilities-Based Transport Interconnection Charge.

Two price cap LECs -- Frontier and SBC-Nevada -- also persist in using the wrong methodology to calculate the residual TIC. The Access Reform Order requires price cap LECs to identify those portions of their TIC revenues that relate to specific facilities and those portions that cannot be associated with any identifiable cost element (which is known as the "residual TIC"). Designation Order ¶ 81. The Commission directed that facilities-related TIC revenue be reassigned to facilities-based charges in three stages, beginning January 1, 1998. As to the remaining, residual TIC, the Commission required price cap LECs to target all price cap reductions arising in any price

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[44] (...continued)
This misses the point of the Access Reform Order. The Commission does not intend to reset the 1993 SBIs. The intent is to identify the exogenous cost impact on the basis of the 1993 price and copper/fiber mix and to subsequently identify those dollars as a ratio of the June 30, 1997 targeted versus non-targeted amounts.

[45] See 47 C.F.R. § 69.111(c).

[46] BellSouth, Ameritech, Bell Atlantic, and SNET appear to be the only LECs that believe that § 69.111(c) applies here. See BellSouth Direct Case at 29-30; Ameritech Direct Case at 15; Bell Atlantic Direct Case at 10; SNET Direct Case at 7-9.

cap basket as a result of the application of the "GDP-PI minus X factor" formula to the residual TIC until the per-minute TIC is eliminated. Designation Order ¶ 81.

The Commission specified in the Access Reform Order (¶¶ 234-36) the methodology to be used in calculating the residual TIC,[47] but certain price cap LECs did not follow that methodology in their tariff filings. Thus, the Commission found that these price cap LECs had not demonstrated that they calculated the residual TIC correctly, and tentatively concluded that the AT&T worksheet format for the TIC recalculation should be used to determine the transport costs that are to be removed from the TIC. Designation Order ¶ 90. Noting that most price cap LECs would have a non-facilities residual TIC, the Commission directed these price cap LECs to recalculate the removal of TIC costs and the facilities-based portion of the TIC using the AT&T worksheet provided in its December 23, 1997 petition. Id. The Commission sought comment on the proposed use of the AT&T worksheet, and it required the price cap LECs to include a justification of methodologies they used to calculate these amounts in their direct cases. Id.

AT&T reviewed the price cap LECs' direct cases and found that the Sprint LTCs and the GSTC and GTOC operating companies used AT&T's worksheet format for their TIC recalculation, and their results are consistent with the AT&T methodology. Although Frontier followed the AT&T worksheet format and SBC-Nevada attempted to follow the format, each of these LECs also presented alternative methods of calculation that continue to create errors, as described in AT&T's December 23, 1997 petition.

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[47] The Commission required price cap LECs to compute their anticipated residual TIC by excluding revenues expected to be reassigned on a cost-causative basis to facilities-based charges in the future. The price cap LECs were required to apply "GDP-PI minus X-factor" adjustments to anticipated residual TIC, and to recalculate the residual TIC targeted in their July 1, 1997 tariffs (eliminating any excess targeting that resulted in a larger PCI reduction to the TIC SBI than required to eliminate the per-minute interconnection charge and directing all necessary exogenous adjustments to PCIs and SBIs to reverse the effects of excess targeting). Designation Order ¶ 82.

First, SBC-Nevada continues to use its 1997 Annual Filing Proposed TIC Revenue (Annual Filing, SUM-1, Ln. 171, col. C) to recalculate the new Residual TIC. This approach is incorrect. SBC-Nevada should have used Annual Filing Current TIC Revenue instead (Annual Filing, SUM-1, Ln. 171, col. B).[48]

Second, SBC-Nevada and Frontier persist in using the Annual Filing change in TIC Revenue (SUM-1, Ln. 171, col. E) instead of the Targeted Revenue Differential TIC (sum of PCI-1, Ln. 237c.), which results in an understatement of targeted TIC by $67,367 in the aggregate. This illustrates a fundamental error in the SBC-Nevada/Frontier approach. The recalculated TIC must be compared to the actual targeted TIC revenues because the very purpose of the TIC true-up calculation is to determine if the Targeted TIC revenue is higher than the actual Residual TIC. Designation Order ¶ 86.[49] Instead, SBC-Nevada manipulates its numbers to fit AT&T's methodology and makes "corrections" to AT&T's numbers in order to assert that the SBC-Nevada and AT&T methodologies produce the same result. When the correct amount of TIC targeting revenues is used in determining the amount of excess targeting, however, the difference between AT&T's approach and that used by SBC-Nevada becomes apparent.[50] Thus, while SBC-Nevada claims it has merely created an alternative methodology leading to an identical result, this is not the case. SBC-Nevada's calculations do not accurately determine the excess targeting, and SBC-Nevada should instead follow the format set forth in AT&T's worksheet.

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[48] See AT&T's Dec. 23 Petition at 9-10.

[49] See also AT&T's Dec. 23 Petition at 11.

[50] SBC-Nevada uses SUM-1 Line 171, Col. E, in Line 7A of its exhibit to "correct" the TIC targeting amount. SBC-Nevada indicates that AT&T should have used the entire TIC revenue change rather than just the TIC targeting revenue change, but gives no sound reasoning for this adjustment. The AT&T worksheet correctly identifies the Targeted TIC as being the Annual Filing sum PCI-1 Line 237C.

Third, the alternative calculation methods presented by Frontier and SBC do not include all of the appropriate exogenous costs, e.g., COE Maintenance, GSF and Weighted DEM. As a result, Frontier's recalculated TIC amounts are understated ab initio, altering subsequent calculations in their comparison. Furthermore, SBC-Nevada did not follow the recommended worksheet, making it difficult to determine if it included GSF costs. SBC asserts that GSF costs were included in the TIC's portion of undesignated trunking basket costs, but did not itemize any of the TIC exogenous costs as specified in the Designation Order worksheet. Consequently, AT&T is still unable to determine if all of the exogenous costs for SBC have been removed.

In sum, the AT&T worksheet presented in the Designation Order provides an accurate, clear, and concise method for determining excess targeting. The Sprint LTCs and GTE have properly adopted this method, but SBC-Nevada and Frontier did not. These latter two price cap LECs should be required to determine the correct amount of excess targeting by using the worksheet presented in AT&T's December 23, 1997 petition. See Exh. TIC-1 and TIC-2.

V. SOME PRICE CAP LECS HAVE MISALLOCATED THEIR UNIVERSAL SERVICE EXOGENOUS COSTS.

The price cap LECs have overstated access charges by continuing to make errors in their Universal Support calculations. To remedy these defects, the Commission should (i) require all price cap LECs to adopt the allocation methodology used by the majority of the price cap LECs; (ii) require Ameritech to base Trunking basket end-user revenues on the sum of lines 36 and 38 of FCC Form 457; and (iii) should further refine the Commission's guidelines on the proper method of USF distribution.

In the Universal Service Order, the Commission established a new Universal Service fund ("USF") and required the price cap LECs to make contributions. In the Access Reform Order, the

Commission permitted price cap LECs to treat their USF contributions as exogenous changes to their PCIs. Designation Order ¶ 91; Access Reform Order ¶ 379; Universal Service Order, 12 FCC Rcd 8776, 9171. However, because the price cap LECs' USF contributions are based on a percentage of end-user revenues, and the price cap LECs do not recover revenues from end-users in all baskets, the Commission determined that the exogenous adjustments to the PCIs should be made only to the price cap baskets containing end-user revenues -- the common line, interexchange, and trunking baskets. Designation Order ¶ 91. In the Designation Order, the Commission further found that the price cap LECs' tariffs contain large and unexpected variances in the percentage of USF contributions allocated to the common line, interexchange, and trunking baskets. Accordingly, the Commission held that the price cap LECs' USF allocations warranted further review, and required the price cap LECs to defend their methodologies. Designation Order ¶ 95.

A. All Price Cap LECs Should Be Required To Use The Method Of Universal Service Cost Allocation Adopted By The Majority Of The Price Cap LECs.

The price cap LECs' direct cases reveal two different methods of allocating USF exogenous costs. The majority view (adopted by Aliant, Bell Atlantic, BellSouth, Citizens, GTE, Nevada Bell, Pacific Bell, Southwestern Bell, SNET, and U S WEST) is that USF costs should be distributed among the three price cap baskets based on a comparison of TRP's SUM-1[51] against the LECs' internal billing records. The minority view (adopted by Ameritech, CBT, Frontier, and Sprint) is that USF costs should be distributed among the three price cap baskets based on the interstate end-user revenues reported in Column C of lines 34-47 of FCC Form 457.

The majority view plainly is correct, because it allows the Commission and the interexchange carriers to verify, challenge, or comment on the interstate end-user trunking basket revenues reported

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[51] LECs should use the Current Revenues (Base Period Demand * Current Rates) data, in consistence with distribution of other exogenous costs within the price cap baskets.

by the price cap LECs. By contrast, the minority view represents an entirely inappropriate methodology for distributing interstate end-user revenues among price cap baskets. FCC Form 457, on which the minority view relies, is designed to determine the amount of each price cap LEC's USF contribution, but is not designed to, nor does it give, any guidance as to the distribution of exogenous costs within each basket.[52] In addition, Form 457 is submitted only to the Universal Service Administration Commission, not to the industry, and is therefore unverifiable by third parties. For these reasons, the Commission should adopt the methodology followed by the majority for all price cap LECs.

In all events, the price cap LECs employing the minority approach made errors in their calculations. CBT erred by calculating common line revenues on a semi-annual basis, while calculating interexchange revenues on a quarterly basis.[53] As a result, CBT overestimated its USF contribution to the common line basket, and underestimated its USF contribution to the interexchange basket. See Exh. USF-2. In addition, price cap LECs adopting the minority view inconsistently mapped lines from FCC Form 457 to the different price cap baskets. For example, Sprint does not appear to map line 38 to any price cap basket,[54] but Ameritech maps line 38 to the trunking basket's total end-user revenues.

Finally, the Commission should further refine the guidelines on the proper method of distribution of USF. Specifically, the Commission should ensure that the price cap LECs use current

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[52] Access Reform Order ¶ 379 ("[P]rice cap LECs electing to recover their universal service obligation through interstate access charges must therefore apply the full amount of the exogenous adjustment among these three baskets on the basis of relative size of end-user revenues").

[53] CBT Transmittal No. # 712, Workpaper EXG-USF, page 2.

[54] Sprint LTCs Direct Case at 11.

end-user revenues within the Trunking basket, and should require LECs to provide detailed work papers and explanations with their annual filings.

B. Ameritech Has Improperly Allocated Its Universal Service Costs To Its Trunking Basket.

In the Designation Order, the Commission noted that Ameritech allocated only 0.26 percent of its USF costs to its trunking basket interstate revenues while other price cap LECs allocated far more (approximately 25 percent, on average).[55] The Commission further noted that Ameritech allocated these costs based on Trunking basket end-user interstate revenues of $1,225,535 even though Ameritech's company records reported Trunking basket end-user interstate revenues of $67,653,747.[56] Designation Order ¶ 96.

Although the Commission required Ameritech to explain these disparities in its direct case, Ameritech has made no serious attempt to do so. The disparity appears to stem from the fact that Ameritech based its Trunking basket end user revenues solely on line 38 of Form 457 -- the "Other local telecommunications service revenues" amount.[57] Instead, Ameritech's trunking basket revenues should be based on the sum of lines 36 and 38 because Ameritech's "Special Access" revenues reside in line 36. Because AT&T estimates that line 36 contains the $67,653,747 in end user trunking basket revenues reported in Ameritech's company records, AT&T believes that Ameritech's oversight with respect to line 36 is responsible for its uniquely low Trunking basket end-user revenues.[58] Once

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55 Designation Order ¶ 96; Ameritech Transmittal No. 1136, Exh. 4, page 1, line 2f.

56 Ameritech Transmittal No. 1136, Exh. 4, page 1, line "Sum of above".

57 Ameritech Transmittal No. 1136. The 'Source' column in Ameritech's Exhibit 4 identifies which lines it has used from FCC Form 457 to calculate the interstate end-user revenues for the common line, trunking, and interexchange baskets.

58 AT&T does not have a copy of Ameritech's filed FCC Form 457.

this error is remedied, a more appropriate distribution of Ameritech's USF exogenous costs will result. See Exh. USF-1.

CONCLUSION

For the foregoing reasons, the Commission should require the price cap LECs to adopt the methodologies described above and to resubmit their tariffs accordingly. In addition, the Commission should require the price cap LECs to make refunds of overcharges incurred since the price cap LECs' January 1, 1998 tariffs took effect.

Respectfully submitted,

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Summary Of Overstated CCL Rates 1991 - 1997

CCL Overcharge

LEC	1991/1992	1992/1993	1993/1994	1994/1995	1995/1996	1996/1997	1997/1998	Total
Bell Atlantic - South	$ 16,277,931.36	$ 13,601,384.90	$ 3,441,865.25	$ 18,116,036.96	$ (1,439,922.68)	$ (985,932.42)	$ 6,751,506.86	$ 55,762,870.23
Bell Atlantic - North	$ 12,371,126.10	$ 20,709,595.97	$ 15,860,095.07	$ 3,973,670.66	$ 1,725,352.42	$ (8,792,152.72)	$ 4,187,210.25	$ 50,034,897.75
Southwestern Bell	$ 3,781,039.25	$ 15,116,126.14	$ 25,573,387.95	$ 3,109,217.92	$ 5,475,147.87	$ (810,569.60)	$ (882,401.45)	$ 51,361,948.08
Sprint	$ (700,668.10)	$ 1,150,655.07	$ 1,344,062.90	$ 1,068,313.98	$ 1,747,239.48	$ 1,775,125.39	$ 2,715,954.40	$ 9,100,683.12
US West	$ 7,035,266.00	$ 11,062,923.00	$ 43,569,235.00	$ 49,566,510.00	$ 39,710,103.00	$ 48,925,653.00	$ 43,285,273.00	$ 243,154,963.00
Total	$ 38,764,694.62	$ 61,640,685.08	$ 89,788,646.17	$ 75,833,749.52	$ 47,217,920.09	$ 40,112,123.65	$ 56,057,543.05	$ 409,415,362.18

Impact Of Overstated CCL Rate 1991-1997
Bell Atlantic - South

	Chargeable CCL Demand Minutes (A)	Bell Atlantic South Premium CCL Rate Annual Filing (B)	Bell Atlantic South CCL Revenues (C) = (A*B)	Recomputed Premium CCL Rate (D)	Recomputed CCL Revenues (E) = (A*D)	Excess CCL Billing (F) = (C-E)
1991/1992	45,596,446,392	0.009738	444,018,195	0.009381	427,740,264	16,277,931
1992/1993	48,576,374,650	0.008247	400,609,362	0.007967	387,007,977	13,601,385
1993/1994	51,371,123,102	0.009199	472,562,961	0.009132	469,121,096	3,441,865
1994/1995	54,077,722,279	0.007520	406,664,472	0.007185	388,548,435	18,116,037
1995/1996	57,596,907,134	0.005693	327,899,192	0.005718	329,339,115	(1,439,923)
1996/1997	61,620,776,549	0.005543	341,563,964	0.005559	342,549,897	(985,932)
1997/1998	66,846,602,536	0.004293	286,972,465	0.004192	280,220,958	6,751,507
					Total	55,762,870

Impact Of Overstated CCL Rate 1991-1997
Bell Atlantic - North

		Chargeable CCL Demand Minutes (A)	Bell Atlantic North Premium CCL Rate * Annual Filing (B)	Bell Atlantic North CCL Revenues (C) = (A*B)	Recomputed Premium CCL Rate ** (D)	Recomputed CCL Revenues (E) = (A*D)	Excess CCL Billing (F) = (C-E)
1991/1992		38,419,646,279	0.007367	283,037,534	0.007045	270,666,408	12,371,126
1992/1993		40,369,582,792	0.006846	276,370,164	0.006333	255,660,568	20,709,596
1993/1994	***	42,520,362,119	0.008250	350,792,987	0.007877	334,932,892	15,860,095
1994/1995		44,647,984,888	0.008647	386,071,125	0.008558	382,097,455	3,973,671
1995/1996		47,926,456,161	0.007788	373,251,241	0.007752	371,525,888	1,725,352
1996/1997		51,117,166,967	0.007111	363,494,174	0.007283	372,286,327	(8,792,153)
1997/1998	****	53,682,182,679	0.005656	303,626,425	0.005578	299,439,215	4,187,210
						Total	50,034,898

* Bell Atlantic Direct Case filed 2/27/98, Exhbit B1, Pages 1a-1g
** See Bell Atlantic's Annual Filings from 1991 to 1997.
*** NYNX 1993 GSF Filing
*** The NYNX Rate for 1997/1998 reflects change to prescribed $6.48 MLB EUCL rate

Impact Of Overstated CCL Rate 1991 - 1997
Southwestern Bell

	Chargeable CCL Demand Minutes (A)	SBC Premium CCL Rate Annual Filing (B)	SBC CCL Revenues (C) = (A*B)	Recomputed Premium CCL Rate (D)	Recomputed CCL Revenues (E) = (A*D)	Excess CCL Billing (F) = (C-E)
1991/1992	25,206,928,350	0.008592	216,577,928	0.008442	212,796,889	3,781,039
1992/1993	26,849,247,139	0.007776	208,779,746	0.007213	193,663,620	15,116,126
1993/1994	28,637,612,485	0.007580	217,073,103	0.006687	191,499,715	25,573,388
1994/1995	30,358,923,497	0.010038	304,755,482	0.009936	301,646,264	3,109,218
1995/1996	32,206,752,173	0.007784	250,697,359	0.007614	245,222,211	5,475,148
1996/1997	35,242,156,432	0.007504	264,457,142	0.007527	265,267,711	(810,570)
1997/1998	38,365,280,626	0.005983	229,539,474	0.006006	230,421,875	(882,401)
					Total	51,361,948

Impact Of Overstated CCL Rate 1991 - 1997
Sprint

		Chargeable CCL Demand Minutes (A)	Sprint Premium CCL Rate Annual Filing (B)	Sprint CCL Revenues (C) = (A*B)	Recomputed Premium CCL Rate (D)	Recomputed CCL Revenues (E) = (A*D)	Excess CCL Billing (F) = (C-E)
1991/1992	Orig	3,552,584,610	0.010000	35,525,846	0.010000	35,525,846	(0)
	Term	4,425,754,800	0.017126	75,796,793	0.017285	76,497,461	(700,668)
1992/1993	Orig	3,960,915,893	0.010000	39,609,159	0.010000	39,609,159	0
	Term	4,942,123,412	0.015795	78,063,100	0.015563	76,912,445	1,150,655
1993/1994	Orig	3,552,584,610	0.010000	35,525,846	0.010000	35,525,846	(0)
	Term	6,188,257,356	0.019570	121,104,866	0.019353	119,760,803	1,344,063
1994/1995	Orig	7,994,539,202	0.010000	79,945,392	0.010000	79,945,392	(0)
	Term	4,425,754,800	0.018767	83,060,105	0.018526	81,991,791	1,068,314
1995/1996	Orig	6,458,062,352	0.010000	64,580,624	0.010000	64,580,624	0
	Term	8,649,702,303	0.014034	121,386,273	0.013832	119,639,033	1,747,239
1996/1997	Orig	6,883,304,661	0.010000	68,833,047	0.010000	68,833,047	0
	Term	9,776,308,903	0.015897	155,416,854	0.015716	153,641,729	1,775,125
1997/1998	Orig	7,455,776,960	0.010000	74,557,770	0.010000	74,557,770	0
	Term	10,705,505,177	0.013461	144,103,629	0.013207	141,387,675	2,715,954
						Total	6,384,729

Impact Of Overstated CCL Rate 1991 - 1997
GTE

	Chargeable CCL Demand Minutes (A)	GTE Premium CCL Rate Annual Filing (B)	GTE CCL Revenues (C) = (A*B)	Recomputed Premium CCL Rate (D)	Recomputed CCL Revenues (E) = (A*D)	Excess CCL Billing (F) = (C-E)
1991/1992	15,316,684,850	0.022725	348,076,258	0.022707	347,795,963	280,295
1992/1993	16,643,361,646	0.024491	407,604,248	0.024248	403,574,058	4,030,190
1993/1994	18,530,949,563	0.037455	694,078,569	0.037400	693,050,101	1,028,468
1994/1995	20,197,660,750	0.037577	758,973,557	0.037562	758,662,513	311,044
1995/1996	22,328,905,219	0.027856	621,989,518	0.027845	621,746,133	243,385
1996/1997	24,586,192,773	0.028356	697,161,165	0.028336	696,674,358	486,807
1997/1998	27,338,788,491	0.020700	565,899,252	0.020709	566,158,971	(259,718)
					Total	6,120,470

Impact Of Overstated CCL Rate 1991-1997
US West *

	Chargeable CCL Demand Minutes (A)	US West Premium CCL Rate Annual Filing (B)	US West CCL Revenues (C) = (A*B)	Recomputed Premium CCL Rate (D)	Recomputed CCL Revenues (E) = (A*D)	Excess CCL Billing (F) = (C-E)
1991/1992	31,978,481,000	0.006947	222,154,508	0.006727	215,119,242	7,035,266
1992/1993	34,289,814,214	0.005196	178,169,875	0.004873	167,106,952	11,062,923
1993/1994	36,821,042,789	0.006953	256,016,711	0.005770	212,447,475	43,569,235
1994/1995	40,587,367,204	0.006954	282,244,552	0.005733	232,678,041	49,566,510
1995/1996	44,079,237,029	0.005884	259,362,231	0.004983	219,652,128	39,710,103
1996/1997	48,169,393,078	0.005770	277,937,398	0.004754	229,011,746	48,925,653
1997/1998	52,213,839,117	0.003942	205,826,954	0.003113	162,541,681	43,285,273
					Total	243,154,963

* See AT&T's December 23 Petition, Exhibit CCL-Refund, Page 2, except for row titled 1997/1998 that has been revised to reflect the correct US WEST's Premium CCL Rate proposed in the 1997 Annual Tariff.

Common Line Basket Impact of Underforecast MLB EUCL and Overstated CCL Rate

LEC	1996/1997 Total CL Basket Revenue With Filed CCL Rate and MLB EUCL	Revised Total CL Basket Revenue With Revised CCL Rate and MLB EUCL	Difference
Bell Atlantic - South	1,280,073,588	1,276,164,124	3,909,464
Bell Atlantic - North	1,184,436,623	1,176,800,846	7,635,777
Southwestern Bell	944,611,322	945,401,016	-789,694
Sprint	490,902,606	489,864,485	1,038,121
US West	965,729,572	930,267,624	35,461,948
Total	4,865,753,711	4,818,498,095	47,255,616

1992 - Bell Atlantic-North

CALCULATION OF CARRIER COMMON LINE RATE CAP		BATR-NORTH Direct Case	AT&T Calculation
		1992 Annual Filing Recalculation with Prescribed EUCL	
STEP 1		(A)	(B)
100	Terminating CCL Premium MOU	21,700,340,505	21,700,340,505
110	Terminating CCL Non-Premium MOU	150,779,792	150,779,792
120	Chargeable Terminating CCL Premium MOU	21,768,191,411	21,768,191,411
130	Originating CCL Premium MOU	18,593,942,024	18,593,942,024
140	Originating CCL Non-Premium MOU	16,554,127	16,554,127
150	Chargeable Originating CCL Premium MOU	18,601,391,381	18,601,391,381
160	Term CCL Prem Capped Rates at last PCI Update	0.006766	0.006766
170	Orig CCL Prem Capped Rates at last PCI Update	0.006766	0.006766
180	Multiline Business EUCL lines	43,977,483	43,977,483
190	Res & Single Business EUCL lines	125,343,198	125,343,198
200	Lifeline Lines	6,818,125	6,818,125
210	Special Access Surcharge Lines	193,664	193,664
220	Multiline Bus EUCL Rates at last PCI Update	5.4446990	5.4446990
230	Res & Single Bus EUCL Rates at last PCI Update	3.5000000	3.5000000
240	Lifeline Rates at last PCI Update	3.5000000	3.5000000
250	Sp. Access Surch. Rates at last PCI Update	25.0000000	25.0000000
255	Other CCl Revenues	31,544,000	31,544,000
260	CL Revenue at Capped (t-1) Rates	$1,011,534,991	1,011,523,308
STEP 2			
270	CCL Revenue at Capped (t-1) Rates	$1,011,534,991	1,011,523,308
280	CCL MOU for Base Year	40,461,616,448	40,461,616,448
290	CL Rev/MOU(t-1)	0.025000	0.025000
STEP 3			
300	CL PCI(t)	92.6409	92.6409
310	CL PCI(t-1)	95.5293	95.5293
320	1+% Change CL PCI	0.969764	0.969764
330	CL Reve/MOU(t)	0.024244	0.024244
STEP 4			
340	Base Demand * Proposed SLC's	**735,633,697**	**737,314,389**
350	CCL MOU for Base Year	40,461,616,448	40,461,616,448
360	1+g/2	1.016618	1.016618
370	SLC Rev/MOU(t)	0.017884	0.017925
380	CCL Rev/MOU(t)	$0.006360	0.006319
STEP 5			
390	CCL MOU for Base Year	40,461,616,448	40,461,616,448
400	CCL Rev at CCL Rev/MOU(t)	257,341,706	255,676,904
410	Chargeable Origin MOU	18,601,391,381	18,601,391,381
420	Originating CCL Rev (rate=.01)	186,013,914	186,013,914
430	Residual CCL Rev	71,327,793	69,662,990
440	Chargeable Terminating MOU	21,768,191,411	21,768,191,411
450	Hypothetical Prem Term Rate Cap#1(Prem Orig=.01)	0.003277	0.003200
460	Total Chargeable MOU	40,369,582,792	40,369,582,793
470	Hypothetical Prem Term Rate Cap#2(if #1<.01)	0.006375	0.006333
480	Premium Terminating Rate Cap	0.006375	0.006333

1993 - Bell Atlantic-North

CALCULATION OF CARRIER COMMON LINE RATE CAP		BATR-NORTH Direct Case	AT&T Calculation
		1993 Annual Filing Recalculation with Prescribed EUCL	
STEP 1		(A)	(B)
100	Terminating CCL Premium MOU	23,581,341,662	23,581,341,662
110	Terminating CCL Non-Premium MOU	85,958,148	85,958,148
120	Chargeable Terminating CCL Premium MOU	23,620,022,829	23,620,022,829
130	Originating CCL Premium MOU	18,895,457,343	18,895,457,343
140	Originating CCL Non-Premium MOU	10,848,771	10,848,771
150	Chargeable Originating CCL Premium MOU	18,900,339,290	18,900,339,290
160	Term CCL Prem Capped Rates at last PCI Update	0.006378	0.006337
170	Orig CCL Prem Capped Rates at last PCI Update	0.006378	0.006337
180	Multiline Business EUCL lines	45,980,365	45,980,365
190	Res & Single Business EUCL lines	123,474,667	123,474,667
200	Lifeline Lines	7,975,484	7,975,484
210	Special Access Surcharge Lines	156,239	156,239
220	Multiline Bus EUCL Rates at last PCI Update	5.416643	5.416643
230	Res & Single Bus EUCL Rates at last PCI Update	3.500000	3.500000
240	Lifeline Rates at last PCI Update	3.500000	3.500000
250	Sp. Access Surch. Rates at last PCI Update	25.000000	25.000000
255	Other CCl Revenues	29,756,874	29,756,874
260	CL Revenue at Capped (t-1) Rates	1,013,992,477	1,012,253,606
STEP 2			
270	CCL Revenue at Capped (t-1) Rates	1,013,992,477	1,012,253,606
280	CCL MOU for Base Year	42,573,605,924	42,573,605,924
290	CL Rev/MOU(t-1)	0.023817	0.023777
STEP 3			
300	CL PCI(t)	87.7593	87.7593
310	CL PCI(t-1)	92.6300	92.6300
320	1+% Change CL PCI	0.947418	0.947418
330	CL Reve/MOU(t)	0.022565	0.022526
STEP 4			
340	Base Demand * Proposed SLC's	757,065,126	757,065,123
350	CCL MOU for Base Year	42,573,605,924	42,573,605,924
360	1+g/2	1.022269	1.022350
370	SLC Rev/MOU(t)	0.017395	0.017394
380	CCL Rev/MOU(t)	0.005170	0.005133
STEP 5			
390	CCL MOU for Base Year	42,573,605,924	42,573,605,924
400	CCL Rev at CCL Rev/MOU(t)	220,101,105	218,512,666
410	Chargeable Origin MOU	18,900,339,290	18,900,339,290
420	Originating CCL Rev (rate=.01)	189,003,393	189,003,393
430	Residual CCL Rev	31,097,712	29,509,273
440	Chargeable Terminating MOU	23,620,022,829	23,620,022,829
450	Hypothetical Prem Term Rate Cap#1(Prem Orig=.01)	0.001317	0.001249
460	Total Chargeable MOU	42,520,362,119	42,520,362,119
470	Hypothetical Prem Term Rate Cap#2(if #1<.01)	0.005176	0.005139
480	Premium Terminating Rate Cap	0.005176	0.005139